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The IAS 8 Analysis and Critical Thesis of the IAS 8

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Abstract

In this paper the concept and the solutions suggested by IAS 8 are analysed extensively by using accounting examples. These solutions are indicated in order to achieve a equable treatment of the issues that this standard introduces in accounting.

In the first part the definitions of the Standard are presented and the meanings of net profit or loss are clarified. Net profit or loss comes either from enterprise's ordinary activities or from activities of extraordinary nature the result of whom forms extraordinary results.

Afterwards, the accounting errors are mentioned and the way to correct them is indicated using recent accounting examples. Moreover, in this paper are mentioned the notifications that must be made in order to ensure the reliability of the economic conditions.

Finally, the accounting treatment of the changes in accounting policies is made clear. These changes are described explicitly by using examples of economic conditions.

International Accounting Standard IAS 8

1. Net profit or loss for the period, fundamental errors and changes in accounting policies.

1.1. Application

The Standard 8 is applied:

a) in presenting profit or loss from ordinary activities, in the Income Statement.
b) in presenting profit or loss from extraordinary activities, in the Income Statement.
c) in accounting for changes in accounting estimates

d) in accounting for fundamental errors
e) in accounting for changes in accounting policies

The Standard 8 is also applied:

a) with the disclosure of certain items of net profit or loss for the period. These disclosures are made in addition to any other disclosures required by other International Accounting Standards, including International Accounting Standards 5 "Information to be disclosed in Financial Statement".
b) with certain disclosures relating to discontinued operations.

1.2. Terms

The following terms are used in Standard 8 with the meanings specified:

Extraordinary items are income or expenses that arise from events or transactions that are clearly distinct from the ordinary activities of the enterprise and therefore are not expected to recur frequently or regularly.

Ordinary activities are any activities, which are undertaken by an enterprise as part of its business, and such related activities in which the enterprise engages in furtherance of, incidental to, or arising from these activities.

A discontinued operation results from the sale or abandonment of an operation of an operation that represents a separate, major line of business of an enterprise and of which the assets, net profit or less and activities can be distinguished physically, operationally and for financial reporting purposes.

Fundamental errors are errors discovered in the current period that are of such significance that the financial statements of one or more prior periods can no longer be considered to have been reliable at the date of their issue.

Accounting policies are the specific principles, bases, conventions, rules and practices adopted by an enterprise in preparing and presenting financial statements.

1.3. Net profit or loss for the period

Normally all items of income and expense recognised in a period are included in the determination of the net profit or loss for the period. However, circumstances may exist when certain items may be excluded from net profit or loss for the current period, such as the correction of fundamental errors and the effect of changes in accounting policies.

The net profit or loss for the period comprises the following components, each of which should be disclosed on the face of the income statement:

a) profit or loss from ordinary activities
b) extraordinary items

1.3.1. Profit or loss from ordinary activities

Concept

Profit or loss from ordinary activities, is the profit or loss that results by an enterprise as part of its business. When items of income and expense within profit or loss from ordinary activities are of such size, nature or incidence that their disclosure is relevant to explain the performance of the enterprise for the period, it is necessary the nature and amount of such items to be disclosed in the extract from notes to the financial statement.

The disclosure may be relevant to users of financial statements in understanding the financial position and performance of an enterprise and in making projections about financial position and performance.

Disclosure

Circumstances, which may give rise to the separate disclosure of items of income and expense, include:

a) the write-down of inventories to net realisable value or property, plant and equipment to recoverable amount, as well as the reversal of such write-downs;
b) a restructuring of the activities of an enterprise and the reversal of any provisions for the costs of restructuring
c) disposals of items of property, plant and equipment
d) disposals of long-term investments
e) discontinued operations
f) litigation settlements and
g) other reversals of provisions

1.3.2. Extraordinary items

Extraordinary items are income or expenses that arise from events or transactions that are clearly distinct from the ordinary activities of the enterprise and therefore are not expected to recur frequently or regularly.

Whether an event or transaction is clearly distinct from the ordinary activities of the enterprise is determined by the nature of the event or transaction in relation to the business ordinarily carried on by the enterprise rather than by the frequency with which such events are expected to occur. Therefore, an event or transaction may be extraordinary for one enterprise but not extraordinary for another, because of the differences between their respective ordinary activities. For example, losses sustained as a result of an earthquake may qualify as an extraordinary item for many enterprises. However, claims from policyholders arising from an earthquake do not qualify as an extraordinary item for an insurance enterprise that insurer against such risks.

Examples of events or transactions that generally give rise to extraordinary items for most enterprises are:

a) The expropriation of assets
b) An earthquake or other natural disaster

Disclosure

The disclosure of the nature and amount of each extraordinary item may be made on the face of the income statement, or when this disclosure is made in the notes to the financial statements, the total amount of all extraordinary item is disclosed on the face of the income statement.

1.4. Discontinued operations

The following disclosures should be made for each discontinued operation, as defined in this Standard:

a) The nature of the discontinued operation
b) The industry and geographical segments in which it is reported in accordance with IAS 14, Reporting Financial Information by Segment
c) The effective date of discontinuance for accounting purposes
d) The manner of discontinuance (sale or abandonment)
e) The gain or loss on discontinuance and the accounting policy used to measure that gain or loss and
f) The revenue and profit or loss from the ordinary activities of the operation for the period, together with the corresponding amounts for each prior period presented.

The results of a discontinued operation are generally included in profit or loss from ordinary activities. However, in the rare circumstances that the discontinuance is the result of events or transactions that are clearly distinct from the ordinary activities of the enterprise and therefore are not expected to recur frequently or regularly, the income or expenses that arise from the discontinuance are treated as extraordinary items. For example, if a foreign government expropriates a subsidiary, the income or expense that arise from the expropriation may qualify as an extraordinary item.

When it is known at the date on which the financial statements are authorised for issue that an operation was discontinued after the balance sheet date or that will be discontinued.

In earlier versions, paragraph 1.4 has been replaced by IAS 35 “Discontinued Operations”.

1.5. Changes in accounting estimates

1.5.1. Concept

As a result of the uncertainties inherent in business activities, many financial statement items cannot be measured with precision but can only be estimated. The estimation process involves judgements based on the latest information available. Estimates may be required, for example, of bad debts, inventory obsolescence or the useful lives or expected pattern of consumption of economic benefits of depreciable assets.

An estimate may have to be revised if changes occur regarding the circumstances on which the estimate was based or as a result of new information, more experience or subsequent developments. By its nature the revision of the estimate does not bring the adjustment within the definitions of an extraordinary item or a fundamental error.

Sometimes it is difficult to distinguish between a change in accounting policy and a change in an accounting estimate. In such cases, the change is treated as a change in an accounting estimate, with appropriate disclosure.

1.5.2. Entry of a change in an accounting estimate

The effect of a change in an accounting estimate should be included in the determination of net profit or loss in:

a) The period of the change, if the changes affects the period only. Example: a change in the estimate of the amount of bad debts affects only the current period and therefore is recognised immediately.
b) The period of the change and future periods, if the changes affects both. Example: a change in the estimated useful life or the expected pattern of consumption of economic benefits of a depreciable asset affects the depreciation expense in the current period and in each period during the remaining useful life of the asset. The effect, if any, on future periods is recognised in future periods.

The effect of a change in an accounting estimate should be included in the same income statement classification as was used previously for the estimate, in order to ensure the comparability of financial statements of different periods.

For example, the effect of a change in an accounting estimate for estimates which were previously included in the profit or loss from ordinary activities is included in that component of net profit or loss.

Disclosure

The nature and amount of a change in an accounting estimate that has a material effect in the current period or which is expected to have a material effect in subsequent periods should be disclosed. If it is impracticable to quantify the amount, this fact should be disclosed.

1.6. Fundamental errors

Errors in the preparation of the financial statements of one or more prior periods may be discovered in the current period.

Errors may occur as a result of mathematical mistakes, mistakes in applying accounting policies, misinterpretation of facts, fraud or oversights etc.

The correction of these errors is normally included in the determination of net profit or loss for the current period.

We consider as fundamental errors those errors that has significant effect on the financial statements of one or more prior periods that those financial statements can no longer be considered to have been reliable at the date of their issue.

An example of a fundamental error is the inclusion in the financial statements of a previous period of material amounts of work in progress and receivables in respect of fraudulent contracts, which cannot be enforced.

The correction of fundamental errors that relate to prior periods requires the restatement of the comparative information or the presentation of additional pro forma information.

1.6.1. Correction of fundamental errors

For the correction of fundamental errors we use two treatments

a) benchmark treatment
b) alternative treatment

1.6.1.1. Benchmark Treatment

The amount of the correction of a fundamental error that relates to prior periods should be reported by adjusting the opening balance of retained earnings. Comparative information should be restated, unless it is impracticable to do so.

An enterprise using the benchmark treatment should:

a) The financial statements, including the comparative information for prior periods, are presented as if the fundamental error had been corrected in the period in which it was made.
b) The amount of the correction that relates to each period presented is included within the net profit or loss for that period.
c) The amount of the correction that relates to periods prior to those included in the comparative information in the financial statements is adjusted against the opening balance of retained earnings in the earliest period presented.

Obligation for restatement of comparative information

The restatement of comparative information does not necessarily give rise to the amendment of financial statements that have been approved by shareholders or registered or filed with regulatory authorities. However, national laws may require the amendment of such financial statements.

Disclosure:

An enterprise should disclose the following:

a) the nature of the fundamental error
b) the amount of the correction for the current period and for each prior period presented

c) the amount of the correction relating to periods prior to those included in the comparative information and
d) the fact that comparative information has been restated or that it is impracticable to do so.

Example

During 2000, enterprise "A" discovered that certain products that had been sold during 1999 were incorrectly included in inventory at 31 December 1999 at 6.500.

The report of the income statement and the statement of retained earnings on 31 December 1999, was the following:

Income Statement

	2000	**1999**
Sales	104.000	73.500
Cost of goods sold	(86.500)	(53.500)
Profit from ordinary activities before income taxes	17.500	20.000
Income taxes	(5.250)	(6.000)
Net profit	12.250	14.000

Statement of Retained Earnings

	2000	1999
Opening retained earnings as previously reported	34.000	20.000
Net profit	12.250	14.000
Closing retained earnings 31.12.99	21.750	34.000

"A" income tax rate was 30% for 1999 and 2000

Correction of the fundamental error in the period 2000 and restatement of the comparative information (period 1999).

After the correction of the fundamental error, this is the report of the income statement and the statement of retained earnings

Income Statement

	2000	**1999**
Sales	104.000	73.500
Cost of goods sold	(80.000)	(60.000)
Profit from ordinary activities before income taxes	24.000	13.500
Income taxes	(7.200)	(4.050)
Net profit	16.800	9.450

Statement of Retained Earnings

	2000	**1999**
Opening retained earnings as previously reported	34.000	20.000
Correction of fundamental error (net of income taxes of 1,950) (note 1)	(4.550)	
Opening retained earnings as restated	29.450	20.000
Net profit	16.800	9.450
Closing retained earnings	46.250	29.450

Extract from notes to the Financial Statement

Certain products that had been sold in 1999 were incorrectly included in inventory at 31.12.1999 at 6.500. The financial statements of 1999 have been restated to correct this error.

Notes

Income Statement

1) The cost of goods sold in 1999 has been increased by 6.500, while the cost of goods sold in 2000 has been decreased by 6.500. Products that had been sold in 1999 were not included in the cost of the goods sold, but were incorrectly included at the inventory in 1999, thus the income statement in 1999 was increased by this amount.
2) Income taxes in 1999 were decreased at 1.950 (6.500*30%). Correspondingly, income taxes in 2000 were increased.

Statement of Retained Earnings

1) The corrected amount of the fundamental error, net of income taxes, appears complimentary at the opening retained earnings in 2000 (6.500*30%=1.950, 6.500 – 1.950 = 4.550). Thus, the correction of the fundamental error in 1999 is included at the closing retained earnings in 2000.
2) Note 1 refers to the 'Extract from notes to the Financial Statements'.

1.6.1.2. Allowed alternative treatment

The amount of the correction of a fundamental error should be included in the determination of net profit or loss for the current period. Comparative information should be presented as reported in the financial statements of the prior period. Additional pro forma information, according to the main method, should be presented unless it is impracticable to do so.

The correction of a fundamental error is included in the determination of net profit or loss for the current period. However, additional information is presented, often as separate columns, to show the net profit or loss of the current period and any prior periods presented as if the fundamental error had been corrected in the period when it was made. It may be necessary to apply this accounting treatment in countries where the financial statements are required to include comparative information, which agrees with financial statements presented in prior periods.

Disclosure

An enterprise should disclose the following:

a. the nature of the fundamental error;
b. the amount of the correction recognised in net profit or loss for the current period; and
c. the amount of the correction included in each period for which pro forma information is presented and the amount of the correction relating to periods prior to those included in the pro forma information. If it is impracticable to present pro forma information, this fact should be disclosed.

Example

During 2000, "A" discovered that certain products that had been sold during 1999 were incorrectly included in inventory 31.12.1999 at 6.500.

The Income Statement and the Statement of Retained Earnings, in 1999 and 2000 were:

Income Statement

	2000	**1999**
Sales	104.000	73.500
Cost of goods sold	(86.500)	(53.500)
Profit from ordinary activities before income taxes	17.500	20.000
Income taxes	(5.250)	(6.000)
Net profit	12.250	14.000

Statement of Retained Earnings

	2000	**1999**
Opening retained earnings as previously reported	34.000	20.000
Net profit	12.250	14.000
Closing retained earnings 31.12.99	21.750	34.000

"A" income tax rate for the years 1999 & 2000 was 30%.

After the correction of the fundamental error, Income Statement and Statement of Retained Earnings are the followings:

Income Statement

			Pro – forma	
	2000	**1999**	**2000**	**1999**
Sales	104.000	73.500	104.000	73.500
Cost of goods sold	(86.500)	(53.500)	(80.000)	(60.000)
Profit from ordinary activities before income taxes	17.500	20.000	24.000	13.500
Income taxes	(5.250)	(6.000)	(7.200)	(4.050)
Net profit	12.250	14.000	16.800	9.450

Statement of Retained Earnings

	2000	1999	2000	1999
Opening retained earnings as previously reported	34.000	20.000	34.000	20.000
Correction of fundamental error (net of income taxes 1.950) (note 1)			(4.550)	
Opening retained earnings as restated	34.000	20.000	29.450	20.000
Net profit	12.250	14.000	16.800	9.450
Closing retained earnings	46.250	34.000	46.250	29.450

Extract from Notes to the Financial Statements

Cost of goods sold for 2000 includes 6.500 for certain products that had been sold in 1999, but were incorrectly included in inventory at 31.12.1999. Restated pro forma information in 2000 and 1999 is presented as if the error had been corrected in 1999.

Notes

1) No change is recorded in the Financial Statements. The fundamental error is corrected in the current period.
2) A restated pro forma is mentioned with the benchmark treatment, if this is possible.
3) Note 1 refers to the "Notes to the Financial Statements", which includes further explanation.

1.7. Changes in accounting policies

1.7.1. Accounting policies

Users need to be able to compare the financial statements of an enterprise over a period of time to identify trends in its financial position, performance and cash flows. Therefore, the same accounting policies are normally adopted in each period.

A change in accounting policy should be made only:

a) if required by statute, or by an accounting standard setting body, or

b) if the change will result in a more appropriate presentation of events or transactions in the financial statements of the enterprise.

A more appropriate presentation of events or transaction sin the financial statements occurs when the new accounting policy results in more relevant or reliable information about the financial position, performance or cash flows of the enterprise.

1.7.2. Application of changes in Accounting policies

A change in accounting policy is applied retrospectively or prospectively in accordance with the requirements of this Standard.

Retrospective application results in the new accounting policy being applied to events and transactions as if the new accounting policy had always been in use. Therefore, the accounting policy is applied to events and transactions from the date of origin of such items.

Prospective application means that the new accounting policy is applied to the events and transactions occurring after the date of change. No adjustments relating to prior periods are made either to the opening balance of retained earnings or in reporting the net profit or loss for the current period because existing balances are not recalculated. However, the new accounting policy is applied to existing balances as from the date of change.

Fore example, an enterprise may decide to change its accounting policy for borrowing costs and capitalise those costs in conformity with the allowed alternative treatment in International Accounting Standard IAS 23, "Borrowing Costs". Under prospective application, the new policy only applies to borrowing costs that are incurred after the date of the change in accounting policy.

1.7.3. Cases that are not changes in accounting policies:

The following are not changes in accounting policies:

a. adoption of an accounting policy for events or transaction that differ in substance from previously occurring events or transactions; and
b. the adoption of a new accounting policy for events or transactions which did not occur previously or that were immaterial.
c. The initial adoption of a policy to carry assets at revalued amounts is a change in accounting policy but it is dealt with as a revaluation in accordance with International Accounting Standard IAS 16, "Property, Plant or Equipment', or IAS 25, "Accounting for Investments" as appropriate, rather than Standard 8.

1.7.4. Adoption of an International Accounting Standard

A change in accounting policy which is made on the adoption of an International Accounting Standard should be accounted for in accordance with the specific transitional provisions, if any, in that International Accounting Standard. In the absence of any transitional provisions, the change in accounting policy should be applied in accordance with the benchmark treatment or the allowed alternative treatment, of this Standard.

The transitional provisions in an International Accounting Standard may require either a retrospective or a prospective application change in accounting policy.

When an enterprise has not adopted a new International Accounting Standard which has been published by the International Accounting Standards Committee but which has not yet come into effect, the enterprise is discouraged to disclose the nature of the future change in accounting policy and an estimate of the effect of the changes on its net profit or loss and financial position.

1.7.5. Other Changes in Accounting Policies

A change in accounting policy has two treatments

a) The benchmark treatment

b) The allowed alternative treatment.

1.7.5.1. Benchmark Treatment

a) a change in accounting policy should be applied retrospectively unless the amount of any resulting adjustment that relates to prior periods is not reasonably determinable.

b) any resulting adjustments should be reported as an adjustment to the opening balance of retained earnings.

c) comparative information should be restated unless it is impracticable to do so.

The financial statements, including the comparative information for prior periods, are presented as if the new accounting policy had always been in use. Therefore, comparative information is restated in order to reflect the new accounting policy. The amount of the adjustment relating to periods prior to those included in the financial statements is adjusted against the opening balance of retained earnings of the earliest period presented. Any other information with respect to prior periods, such as historical summaries of financial data, is also restated.

The restatement of comparative information does not necessarily give rise to the amendment of financial statements which have been approved by shareholders or registered or filed with regulatory authorities. However, national laws may require the amendment of such financial statements.

The changes in accounting policy should be applied prospectively when the amount of adjustment to the opening balance of retained earnings cannot be reasonably determined.

Disclosure

When a change in accounting policy has a material effect on the current period or any prior period presented, or may have a material effect in subsequent periods, an enterprise should disclose the following:

a. the reasons for the change;

b. the amount of the adjustment for the current period and for each period presented;

c. the amount of the adjustment relating to periods prior to those included in the comparative information; and

d. the fact that comparative information has been restated or that it is impracticable to do so.

Example

During 1992, “A” changed its accounting policy with respect to the treatment of borrowing costs that are directly attributable to the acquisition of a hydro-electric power station which is in course of construction.

In previous periods, “A” has capitalised such costs, net of incomes taxes, in accordance with the allowed alternative treatment in IAS 23, Borrowing Costs. “A” has now decided to expense, rather than capitalise, these costs in order to conform with the benchmark treatment in IAS 23.

“A” capitalised borrowing costs incurred of 2,600 during 1991 and 5,200 in periods prior to 19X1. All borrowing costs incurred in previous years in respect to the acquisition of the power station were capitalised.

“A” has not yet recognised any depreciation on the power station because it is not in use.

Income tax rate was 30% for 1991 and 1992.

In 1991, “A” reported:

Extract from the Income Statement

Profit from ordinary activities before interest and income taxes	18.000
Interest expense	
Profit from ordinary activities before income taxes	18.000
Income taxes	(5.400)
Net profit	12.600
Statement of Retained Earnings	
Opening retained earnings	20.000
Net profit 1991	12.600
Closing retained earnings 1991	32.600

Extract from the Income Statement

	1992	**1991**
Profit from ordinary activities before interest and income taxes	30.000	18.000
Interest expenses	(3.000)	(2.600)
Profit from ordinary activities before income taxes	27.000	15.400
Income taxes	(8.100)	(4.620)
Net profit	18.900	10.780

Statement of Retained Earnings

	1992	**1991**
Opening retained earnings as previously reported	32.600	20.000
Change in accounting policy with respect to the capitalisation of interest (net income taxes of 2.340 for 1992 and 1560 for 1991)	(5.460)	(3.640)
Opening retained earnings as restated	27.140	16.360
Net profit	18.900	10.780
Closing retained earnings	46.040	27.140

Notes

1) In the 1991 Income Statement, income tax was decreased at 4.620 (5.400 – 780). Due to the change in the accounting policies, interest expenses were not capitalised, but instead were posted in the income statement with the effect that taxable income and income tax were decreased accordingly.
2) Due to the change in the accounting policies, interest expenses after taxes in 1991 reduced the opening retain earnings by 3.640. These expenses, that concern periods before 1991 had already been capitalised. According to the benchmark treatment the amount of the correction that relates to periods prior to those included in the financial statements is adjusted against the opening balance of retained earnings in the earliest period presented.
   The formula is: 5.200 X 30% = 1.560, 5.200 –1.560 = 3.640.
3) Using the same method as described in paragraph 2, the adjusting entry for the 1992 period reduces the opening balance by 5.460.
   The calculation is 5.200 + 2.600 = 7.800 X 30% + 2.340, 7.800 – 2.340 = 5.460.
4) After the above mentioned adjusting entries the opening retained earnings in 1992 will be the same with the closing retained earnings in 1991, and the Income Statement will be restated.
5) Note 1 refers to the extract from the 'Notes to the Financial Statements'.

Extracts from notes to the Financial Statements

During 1992, "A" changes its accounting policy with respect to the treatment of borrowing costs related to a hydro-electric power station which is in course of construction for use by "A" . In order to conform with the benchmark treatment in IAS 23, Borrowing Costs, the enterprise now expenses rather than capitalises such costs. This change in accounting policy has been accounted for retrospectively. The comparative statements for 1991 have been restated to conform to the changed policy. The effect of the change is an increase in interest expense of 3,000 (1992) and 2,600 (1991). Opening retained earnings for 1991 have been reduced by 5,200 which is the amount of the adjustment relating to periods prior to 1991.

1.7.5.2. Allowed Alternative Treatment

a) A change in accounting policy should be applied retrospectively unless the amount of any resulting adjustment that relates to prior periods is not reasonably determinable.
b) Any resulting adjustment should be included in the determination of profit or loss for the current period.
c) Comparative information should be presented as reported in financial statements of the prior period.
d) Additional pro forma comparative should be presented unless it is impracticable to do so.

Adjustments resulting from a change in accounting policy are included in the determination of the net profit or loss for the period. However, additional comparative information is presented, often as separate columns, in order to show the net profit or loss and the financial position of the current period and any prior periods presented as if the new accounting policy had always been applied.

It may be necessary to apply this accounting treatment in countries where the financial statements are required to include comparative information which agrees with the financial statements presented in prior periods.

The change in accounting policy should be applied prospectively when the amount to be included in net profit or loss for the current period cannot be reasonably determined.

Disclosure

When a change in accounting policy has a material effect on the current period or any prior period presented, or may have a material effect in subsequent periods, an enterprise should disclose the following:

a. the reasons for the change;
b. the amount of the adjustment recognised in net profit or loss in the current period; and
c. the amount of the adjustment included in each period for which pro forma information is presented and the amount of the adjustment relating to periods prior to those included in the financial statements. If it is impracticable to present pro forma information, this fact should be disclosed.

Example

During 1992, "A" changes its accounting policy with respect to the treatment of borrowing costs related to a hydro-electric power station which is in course of construction for use by "A".

In previous periods, “A” has capitalised such costs, net of incomes taxes, in accordance with the allowed alternative treatment in IAS 23, Borrowing Costs. “A” has now decided to expense, rather than capitalise, these costs in order to conform with the benchmark treatment in IAS 23.

“A” capitalised borrowing costs incurred of 2,600 during 1991 and 5,200 in periods prior to 1991. All borrowing costs incurred in previous years in respect to the acquisition of the power station were capitalised.

“A” has not yet recognised any depreciation on the power station because it is not in use.

Income tax rate was 30% for 1991 and 1992.

Profit from ordinary activities before interest and income taxes	18.000
Interest expenses	-
Profit from ordinary activities before income taxes	18.000
Income taxes	(5.400)
Net profit	12.600
Opening retained earnings	20.000
Net profit	12.600
Closing retained earnings	32.600

In 1992 “A”, after the changes in accounting policies, reported

Extract from the Income Statement

			Restated	
	1992	**1991**	**1992**	**1991**
Profit from ordinary activities before interest and income taxes	30.000	18.000	30.000	18.000
Income expenses	(3.000)		(3.000)	(2.600)
Cumulative effect of change in accounting policy	(7.800)	-	-	-
Profit from ordinary activities before income taxes	19.200	18.000	27.000	15.400
Income taxes	(5.760)	(5.400)	8.100	4.620
Net profit	13.440	12.600	18.900	10.780

Statement of Retained Earnings

			Restated	
	1992	**1991**	**1992**	**1991**
Opening retained earnings as previously reported	32.600	20.000	32.600	20.000
Changes in accounting policy with respect to the capitalisation of interest (net of income taxes of 2.340 for 1992 and 1.560 for 1991) (note 1)			(5.460)	(3.640)
Opening retained earnings as restated	32.600	20.000	27.140	16.360
Net profit	13.440	12.600	18.900	10.780
Closing retained earnings	46.040	32.600	46.040	27.140

Notes

1) As we understand from the above example does not befall change in the report of financial statements, profit or loss that resulted from the changes in the accounting policies it is corrected in the current period.
2) In the Income Statement 7.800, concerns accumulated result of change in accounting policies, which includes the interest expenses in 1991 and prior periods (2.600 + 5.200), corrects the opening retained earnings in 1991.
3) Is mentioned informal restated who has been worked out according to the benchmark treatment, provided that it is possible to be worked out.
4) Note 1 is reported the extracts from notes to the Financial Statements, where exists relative explanation.

Extracts from notes to the Financial Statements (Note 1)

1. An adjustment of 7,800 has been made in the income statement for 1992 representing the effect of a change in accounting policy with respect to the treatment of borrowing costs related to a hydro-electric power station which is in course of construction for use by “A”. In order to conform with the benchmark treatment in IAS 23, Borrowing Costs, the enterprise now expenses rather than capitalise such costs.

2. This change in accounting policy has been accounted for retrospectively. Restated pro forma information, which assumes that the new policy had always been in use, is presented. Opening retained earnings in the pro-

forma information for 1991 have been reduced by 5,200 which is the amount of the adjustment relating to periods prior to 1991.

1.8. Conclusion

In this paper, an effort was made to present clearly the implicit meaning of the definitions, stipulated in IAS 8, using specific examples, in an effort to help accountants further in their understanding.

This is deemed necessary because no clear definition of extraordinary result is available, in the international practice. Certain items are described as extraordinary but only under specific circumstances.

It is our hope that this paper will help towards a better understanding of the concepts of IAS 8, given the importance that the users of accounting information attach in determine the fairness of the accounting result.

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